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Tokyo Expects Continued Strong Economic Growth

In most industrial countries, the news that the government expected 4 percent annual growth in inflation-adjusted gross national product would be greeted with some skepticism; private forecasters would explain that actual growth was likely to be somewhat lower and hint that the government had some ulterior motive in being so optimistic. In the United States, for example, annual growth has reached that level only once this decade. Yet when the government of Japan -- delayed almost a month because of the protracted struggle over tax reform -- came up in mid-January with the 4 percent figure as part of its economic outlook for fiscal 1989, which begins April 1, the reaction was the opposite: several respected private forecasters said they expected real growth to be at least a couple tenths of a percentage point higher.

So apparently did some government officials. The Ministry of International Trade and Industry reportedly held out for a figure of well over 4

percent. However, the Ministry of Finance argued for 3.5 percent, "at the very most," in the reported words of an unnamed high official. In a repeat performance of last year's arbitration between a similarly optimistic MITI and a pessimistic MOF, top government officials more or less split the difference.

The figure translates into a continuation of the trends that have been evident this year, although some will be at a slower pace. Domestic demand is once again expected to lead the way, contributing 4.7 percentage points to overall growth, with net exports again tugging the opposite direction, pulling growth down by 0.7 point. An improvement in external imbalances is anticipated despite the forecast that exports will rise 6.3 percent in yen terms on top of a projected 4.3 percent rise in FY 1988. Imports are expected to keep soaring, even exceeding this fiscal year's estimated 13.5 percent rise in yen terms with a jump of 13.8 percent. With little change in the yen-dollar exchange rate foreseen, these figures translate into a modest reduction in the widely watched current account surplus to a level of $71 billion. If the outlook proves accurate, the current account surplus will drop from 2.7 percent of Japan's GNP to 2.2 percent.

Government's FY 1989 Economic Outlook

(percent change except where noted)

	Actual FY 1987	Estimated FY 1988	Outlook FY 1989
Real Gross National Product	5.2%	4.9%	4.0%
Consumer Spending	4.5	4.9	4.6
Residential Construction	25.6	2.1	-3.3
Private Plant and Equipment Investment	10.0	15.9	9.2
Exchange Rate (yen per dollar)	Y138	Y127	Y123
Current Account Surplus (billions of dollars)	$84.5	$78.0	$71.0
Trade Surplus (billions of dollars)	94.0	93.0	88.0
Wholesale Prices	-2.0	-0.8	0.9
Consumer Prices	0.5	0.7	2.0

Consumer spending is expected to more than pull its own considerable weight in FY 1989. Accounting for more than 50 percent of total demand, consumers alone can give the economy a good year even if other factors tend to go a little awry, as they are expected to do in the coming year. Government analysts think that consumer spending will rise 4.6 percent after adjustment for price changes and contribute a strong 2.5 points to overall economic growth. Plant and equipment spending is expected to increase a real 9.2 percent and contribute 2 points to overall GNP growth, a very good performance

unless compared to FY 1988, when it is expected to jump 15.9 percent in real terms. But other components of domestic demand, including residential construction, inventory investment and government spending, are left with a mere 0.2 point contribution to overall growth.

In short, the anticipated strong growth of the Japanese economy in the coming fiscal year is critically dependent on the strengths of consumer spending and plant and equipment investment. Business economists generally buy the government's figures on private consumption, but they disagree among themselves over expectations for real capital spending. In a Japan Economic Journal survey of 20 private-sector forecasts, FY 1989 growth in plant and equipment investment ranged from 5.8 percent (Tokai Bank, Ltd.) to 12.6 percent (Yamaichi Research Institute). This disparity is partly to blame for the wide variation in private-sector forecasts of overall real GNP growth; these run from 3.4 percent (Nippon Credit Bank) to 5 percent (Research Institute of National Economy). On average, this group is slightly more optimistic than the government and forecasts 4.2 percent growth for FY 1989.

The government anticipates slow but steady progress on other goals. The unemployment rate is expected to continue creeping downward to 2.4 percent from FY 1988's estimated 2.5 percent rate. Price increases, even after accounting for the inflationary impact of the new consumption tax, are expected to be only slightly above FY 1988's rises at 2 percent for consumer prices and 0.9 percent for wholesale prices.

In its statement on the outlook, the government cautions that the figures need to be interpreted with some flexibility because of uncertainties inherent in Japan's private-sector economy and in the international environment. The modesty is well-founded. Last year's outlook, in expecting 3.8 percent real growth for FY 1988, underestimated the probable growth rate by more than a percentage point. The forecast of 4 percent real growth for FY 1989 is simultaneously more optimistic than FY 1988's initial outlook and more pessimistic than the 4.9 percent real growth now expected for the April 1988-March 1989 period.

With the Bush administration just getting under way in Washington and the tax system being reformed in Japan, uncertainties now are at least as great as they were a year ago. Furthermore, the currency markets may not be as quiet as they have been in the fiscal year ending March 31. In short, while few outside observers would argue that the government's figures are strongly biased one way or the other, they also realize a lot can -- and usually does -- happen to throw off even the most careful predictions.

Douglas Ostrom

Ministry Of Finance Releases Draft FY 1989 Budget

Suffering from an embarrassment of riches, the Ministry of Finance proposed a central government budget for the fiscal year beginning April 1 that both raises spending and reduces government borrowing. Totaling Y60.4 trillion ($483.3 billion at Y125=$1.00), the proposal represents a 6.6 percent increase in the general account budget over the initial budget for FY 1988, the biggest increase since FY 1981's 9.9 percent hike. Paralleling the case in recent